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Foreword

The Special Committee on Maritime Economic Integration was established by Motion of the Legislative Assembly of Prince Edward Island during the Third Session of the Fifty-Eighth General Assembly. The Committee was directed to examine "Challenge and Opportunity", a paper dealing with the question of Maritime economic integration which was published by the Council of Maritime Premiers. In addition, the Committee was directed to invite public opinion and to make report to the Legislative Assembly, with recommendations, no later than January 15, 1992.

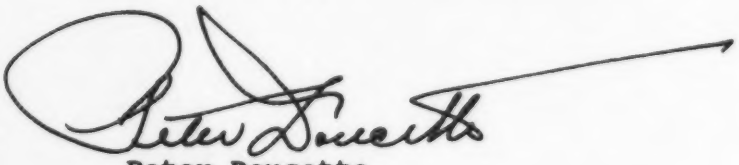
Members of the Special Committee are as follows:

Mr. Peter Doucette, MLA (Chair)
Mr. Stanley Bruce, MLA
Mr. Tim Carroll, MLA
Mr. Albert Fogarty, MLA
Mrs. Libbe Hubley, MLA
Mr. Ross Young. MLA

The Special Committee would like to thank all intervenors (see Appendix A) for their valuable contributions to this Committee's work. Without the benefit of such thought provoking and well-researched presentations, the recommendations and observations included in this report would not have been possible.

The Committee was also assisted in its work by Louise Polland, Researcher and Charles MacKay, Clerk Assistant and Clerk of Committees.

Respectfully submitted,



Peter Doucette

And so for me, the actual!
What I touch, what I see, what I know: the essential fact.

- *The Lady's Not for Burning*, Christopher Fry

Introduction

The question of Maritime economic integration is, as Your Committee has been discovering, not only exceedingly complex but changes almost daily both in the way it is perceived and the attention it attracts. In this period of high uncertainty and general wariness, with federal initiatives appearing at an almost dizzying rate, Maritime economic integration has gotten reactions ranging from polite disinterest, to being considered the solution to many of our economic problems. The climate of speculation surrounding the possible break-up of Canada and the kind of country that would remain after the departure of Quebec provides a greater impetus for the achievement of more economic security and self-sufficiency in the region, perhaps through such an initiative as Maritime economic integration.

We are witnessing ever-stronger international influences on the Canadian and regional economies. These influences are a combination of increased trade, the formation of trading blocs, more activity by multinational corporations and a trading atmosphere that manages to be both more liberal and more protectionist depending on which countries are involved and the state of their respective economies. In all, it is a new and confusing international climate and we in Canada are hearing a lot of discussion about the implications of these regional blocs, trading patterns and trade imbalances. Your Committee wholeheartedly agrees with the statement made by Charles McMillan in his report, *Standing Up to the Future*, "the status quo is no longer an option". The question to consider is whether or not Maritime economic integration will provide any advantages in dealing with this new, as yet imprecisely-defined global economy.

This ambivalence about the question of Maritime economic integration has a long history as these provinces have always, in their relations with each other, known the twin forces of unity and division. While there have always been common economic concerns and resources, there has also been a feeling in each one of the provinces of distinctness from each other as well as from the rest of Canada. Originally part of the British Empire, the region was divided into separate political units after 1784. When separate political units are created, common problems have the tendency to be seen and solved as local political issues and there would be no real reason to develop a regional strategy.

There was a great deal of discussion in the Maritime provinces about some form of union in the years before Confederation. Becoming part of Canada was seen by Nova Scotia and Prince Edward Island as having disastrous long-term consequences and some sort of Maritime union would, it was felt at that time, discourage any sort of regional dependency on Central Canada.

The Central Canadian government had made an arrangement to build a railway which would connect the Maritime colonies, or the Lower Provinces as they were called, with each other as well as with Upper Canada. When the Central administration reneged on this arrangement, it fueled the movement toward Maritime union since it was believed that the Maritime region could take care of its own

development, build its own railway and develop its own trade arrangements without having to rely on Upper Canada. Political union was what was being discussed and this was of some concern to Prince Edward Island. Islanders were concerned that legislative union would lead to annexation, a fate which had already befallen Cape Breton when it ended up becoming part of Nova Scotia and losing its autonomous status.

At the fateful Charlottetown Conference in 1864, the proposal for Maritime union got ignored in the flurry that was created around the Canadian idea of a federal union of all the British North American colonies. As the last-minute guests from Upper Canada arrived, it was clear that the idea of Maritime union, never popular to begin with, was eclipsed by the new proposals which were unveiled.

The Confederation scheme presented problems of its own and was viewed with a great deal of apprehension in all three Maritime regions. After the 1864 Conference, the question of Confederation was bitterly debated and eventually fought in the provincial legislatures. New Brunswick and Nova Scotia had succumbed to Colonial Office pressure and fear of American expansion by 1866 and agreed to negotiations for union. Prince Edward Island managed to hold out until 1873, joining Confederation when it was clear that there were no real alternatives, once the railway-building plans were launched.

Unfortunately, the Maritime provinces did not prosper under Confederation. The profitable North-South trade began to weaken, the ship-building industry declined and the National Policy of protective tariffs hurt the timber industry leading to less activity in Maritime ports. Although the "Wood, Wind and Sail" economy would have been experiencing difficulties in any case, the flow of people and resources out of the region and the Confederation agreement had added to the difficulties.

Relying on diminishing resources has never been more precarious. One presenter to Your Committee, Mr. Austin Thorne from the Canadian Federation of Labour, quoted Lester Thurow, Dean of Management at the Massachusetts Institute of Technology on the global drop in resource prices. Between 1980 and 1990, the average resource price dropped 20% world-wide. Dr. Thurow's estimate was that the average price of global resources would drop another 40% from 1990 to 2000 and the compound result of this 20-year fall in prices would amount to a drop of about 80%. While this is not very encouraging for a country like Canada, which has relied so heavily on exporting resources, it does not have to be equally devastating for this region. Mr. Thorne also pointed out that Central Canada, in its relationship to the provinces was very much like the British Empire in 1867 - the flow of resources went from the colonies (or in this case the regions) to the hub. Eventually, the finished goods were returned to the regions.

To return to our history, it could be said that the economic troubles in this region began when the principle of federal per capita subsidies replaced the customs tariffs, which had been the main source of provincial revenue. This was a much more difficult arrangement for the Maritimes which depended on the tariff for up to 90% of their revenue compared with 60% for the rest of Canada. Maintaining services meant that a subsidy per resident was required and since the Maritime provinces needed more money than the compromise figure agreed to, Maritime governments had little choice than to institute direct taxation measures of their own. These taxes were eventually done away with in Prince Edward Island and there was pressure placed on the Federal government to assume more of the financial responsibilities in particular areas.

From time to time, the dissatisfaction with the Federal government's response to regional needs would focus on Maritime union as a way of breaking free from Canadian policies. This issue would surface at provincial elections but New Brunswick and Nova Scotia did not have secessionist governments in power at the same time so no separation movement was ever able to gather momentum. As a result, the Federal government increased its subsidies to the region. However, in spite of subsidy increases in 1888 and 1912, Prince Edward Island still suffered a shortage of revenue which restricted the Provincial government long into the Twentieth Century.

In the early 1900s, the issue of Maritime union surfaced, the momentum coming mainly from New Brunswick and the Bay of Fundy region. After the First World War, an informal regional alliance of the three Maritime provinces was formed to protest freight rate increases and the effect that the Central government policies were having on transportation. This regional consciousness became more acute as it became clear that Western and Central Canadians were uninterested in the serious economic difficulties faced by the Maritime provinces as a long-lasting depression followed a lingering recessionary period. During the 1930s, every region of the country became preoccupied by its own particular problems and regional protest by the Maritimes died down. Although some modest gains had been achieved, the underlying problems of the Maritime region in Canada remained unresolved.

When the subject of Maritime union has come up in the past, it is full economic union that was being discussed. The question before Your Committee is Maritime economic integration and the degree to which we believe the economy of Prince Edward Island should become intertwined with the provincial economies of Nova Scotia, New Brunswick and, possibly, Newfoundland.

Your Committee has found that integration has been proceeding and will continue to proceed through the various professional organizations for whom it is practical.

Many presenters said that they would like to see more regional planning and policy coordination. Again, Your Committee believes that this is inevitable as governments work more closely together through the existing regional mechanisms.

A number of groups expressed concern about the reduced federal transfers and the consequences for the region and this province. There was also a concern about the high cost of government services and the hope expressed by many presenters that through some form of Maritime economic integration or at least, Maritime cooperation, some of these costs could be trimmed.

We have found that hospitals and school boards have been studying bulk purchasing as a result of budget constraints and that there is a trend towards a centralization of services.

It was enlightening for Your Committee to realize the degree to which many professional groups and associations were already moving toward some form of economic integration in the areas of professional mobility and licensing without any government-driven initiatives.

Your Committee endorses the achievements of the three Maritime Premiers in the area of Maritime economic integration. However, Your Committee believes that this initiative alone will not solve our economic problems and that we need to think about the creation of wealth in new and fundamentally different ways.

The Deutsch Report

The governments of New Brunswick, Nova Scotia and Prince Edward Island commissioned a study of Maritime economic union in 1968. The report, completed in 1970, included public submissions and commissioned studies on health services, industrial development, regional education policies, provincial-municipal relations, federal-provincial fiscal relations, economic planning and the implications for French language and culture.

This study, known as the Deutsch report, concluded that if regional development policy is carried out by the Federal government alone, there would be a complete dependence on Federal policy to be consistent and a total reliance on the Federal government to maintain its financial commitments. This was considered such a risky proposition that the only alternative would be much greater regional cooperation which could be carried out in the following ways: through the use of regional economic planning and the implementation of regional programmmes; through negotiating regional requirements with the Federal authorities and the other provinces; and by reducing unnecessary overhead costs and trying to achieve more efficiency in administration.

Political union was seen by the writers of the Deutsch report as a definite objective and possibility in order to avoid what they envisaged as a hodge-podge of new bureaucracies, red tape and additional costs. Seven tasks were identified before achieving the ultimate goal of political union and they were:

1) regional economic planning;

2) regional negotiations with the Federal authorities;

3) establishment of common administrative services;

4) development of uniform legislation;

5) coordination of existing provincial policies;

6) preparation of a constitution for a single provincial government for the Maritime region;

7) implementation of successive steps leading to political union.

What has been achieved, is a reasonable amount of cooperation in a number of different areas. We have seen this reflected in a good number of presentations to Your Committee and expect that this will continue. In fact, several of the groups mentioned that they will be addressing the issue of closer regional cooperation in their respective conventions and conferences throughout 1992.

It is interesting to note that a number of recommendations made by the Deutsch report are being implemented as part of a natural process. As for the other areas mentioned in the Deutsch report: the provincial governments are working more closely together in developing a common strategy for dealing with the Federal government, particularly in regard to equalization; not even the most sanguine individual would contemplate the preparation of a Maritime constitution.

One phrase that is continually heard in connection with Maritime economic integration is " interprovincial trading barriers" or "barriers to trade". Your Committee would like to devote the next section of the report to this topic.

Interprovincial Trade Barriers - How Real Are They?

Certainly in terms of tariffs the situation is clear - since there are no tariffs between provinces the way there are between nations there is nothing to remove. However, the situation is more complicated when it comes to non-tariff barriers.

One of the lingering effects of the old National Policy and its focus on Central Canada as the hub, in trade as well as in manufacturing, was that the outlying regions did not develop strong trading relationships with each other. Naturally, distance was a factor in determining trade relations as well.

Most of the presenters to Your Committee based their briefs on the discussion paper commissioned by the Council of Maritime Premiers, *Challenge and Opportunity*. Many had read the McMillan report, *Standing Up to the Future* as well and had specific comments. Several of these groups were concerned that supply management boards would be eliminated because they are considered to be a trade barrier, at least in Dr. McMillan's report.

There seem to be two distinct questions in this whole area: 1) what precisely are the barriers and 2) what are they costing us?

Dr. McMillan listed twelve barriers to trade in his report and they include: government procurement contracts; highway construction tenders; wine and beer sales; product labelling, protection and safety programs; marketing boards; professional credentials and labour policies; grants and subsidies to companies; provincial advertising and tourism promotion; provincially funded loan boards; provincial trucking regulations, provincial incentive programs for industrial development and the policies governing Crown Corporations.

The concerns that the presenters had in terms of barriers could be said to fit into three general categories: licensing and certification standards and common legislation (labour mobility issues), procurement policies (mobility of goods and services) and investment and credit (mobility of capital).

Mobility of labour

Many groups already have complete professional mobility and others are working towards it within their particular association. A large number of groups wanted to see harmonization of labour and occupational health and safety laws and common standards for apprenticeship and training. The presenters made it very clear that they would like to see the highest standards adopted as the model for harmonization. Other organizations wanted to make sure that their control of licensure and registration fee schedules was not altered. It was interesting to discover that the organizations that did have to pay a license-to-practice fee in another province did not consider these fees to be actual barriers, particularly in professions such as architecture, engineering and dentistry.*Since a number of groups already have interprovincial mobility and other groups are on the point of achieving it through their respective organizations and the out-of-province license fees do not seem to be a great barrier, Your Committee questions how much of a barrier actually exists in terms of interprovincial mobility of labour.*

Mobility of Capital

The barriers to mobility of capital would include such areas as differences in provincial taxation policies, investment incentives to outside companies and differences in availability of credit.

Canada is a country which, by international standards, enjoys a high degree of harmonization in the personal income tax agreements which all the provinces participate in with the exception of Quebec. Corporate taxes are administered by the Federal government for most of the provinces (with the exception of Quebec, Ontario and Alberta). However, the tax bases in these provinces are similar to the federal base. Beginning in the mid 1970s, this system began to get more complicated as provincial governments became more involved in personal and corporate tax collection through the medium of tax credits, surtaxes and corporate income tax "holidays" which acted as incentives for new companies to locate in a particular province. As more and more provinces began using tax measures as policy tools, there has been increased competition between provinces for outside investment with tax credits as a primary incentive. The Economic Council of Canada, considers that it is possible for provinces to have some autonomy within the system without risk of losing the high degree of harmonization we already have in this country,

particularly if tax-base definitions are similar in all provinces. In fact, having similar tax-bases may be more important than similar rates in achieving provincial tax harmony.

The varying sales tax laws are mentioned in *Challenge and Opportunity*. According to the report, " Maritime provincial tax commissioners are reviewing existing sales tax regulations and administrative procedures" and that a report will result "on ways to simplify the sales tax rules".

Your Committee would like to see a review done of tax credits and a collaborative effort by all three provinces to ensure similar tax base definitions and administrative practices and that this be carried out by the Council of Maritime Premiers.

Several presenters to Your Committee were concerned about the high cost of capital in Canada and the regional differences in access to venture capital in particular. It is certainly ironic, given the high rate of home ownership and personal savings in this region that it is so difficult to acquire the capital so badly needed to make the region more prosperous.

Mr. Jim Revell, in his presentation, expressed concerns about the "credit crunch," the fact that no major banks or trust companies have head offices here and that federal institutions like the Farm Credit Corporation or FBDB have not given enough decision-making authorization for anything but very small amounts of capital to their regional offices. He also felt that a number of lo-

cal banks and trust companies prefer to underwrite consumer loans rather than the more costly commercial loans to businesses. As a result, too much of the responsibility falls on government offices such as the Development Agency.

We have been told, in Atlantic Canada, that there is a high level of personal saving here compared with other parts of the country. However, this capital has not been successfully harnessed to enrich the local economies.

Your Committee recommends the creation of a regional task force which would work with the other Maritime (or Atlantic) provinces to find ways of stemming the flow of capital outside the region.

Your Committee heard no evidence to suggest that Maritime economic integration would address this fundamental lack of capital.

Mobility of Goods and Services

Government procurement of goods and services in Canada has always been a vehicle for directly encouraging local development and helping local businesses. If dealing with local companies was, in some cases, more costly it was felt that the added expense was justifiable in that local employment was enhanced.

Since December 1989, this situation has changed for Nova Scotia, New Brunswick and Prince Edward Island with the signing of the Maritime Procurement Agreement which prohibits discrimination based on the province of origin of goods and services (within the Maritimes) . The Agreement applies to all government procurement by departments and specified agencies, commissions and crown corporations; newly created agencies and crown corporations will be subject to the Agreement as well. Construction is considered to include all schools, hospitals, highways, wharves and bridges and also includes subcontractors and suppliers. Although municipalities, school boards, universities and hospitals are not included in the Agreement at this time, they are encouraged to adopt the principles and consider open tendering in their operations. Governments may make tendering decisions based on other criteria than price, such as quality, quantity, delivery and service capability and Maritime manufacturers may be given preferential treatment over suppliers from outside the region.

The threshold levels for all goods is $25,000; for services it is $50,000 and for construction contracts the tender has to be $100,000 or more.These threshold levels are revised upwards every April 1 by the amount of annual rate of increase of the consumer price index to the nearest thousand dollars. There are exemptions to this Agreement - alcoholic beverages under Liquor Commission control and agricultural products regulated by marketing boards. The three provinces may support first-time manufacturing or service businesses for economic development purposes but this preference must be made clear in the tender call and is to be

phased out after three years. Exceptions must contain the reasons for the exemption: dates, value and recipient of contract in a report filed with the Assessment Review Committee. Existing contracts for metal culvert pipe, highway traffic paint and guardrail, although inconsistent with the Agreement may also be honoured as long as these purchasing agreements do not continue beyond April, 1995 and the other provincial governments are notified.

Tendering information must be made public and an electronic data network for regional procurement is expected to be operational in the Spring of 1992. Prince Edward Island has taken the lead on the computerized data network which should make it easier for all Maritime companies to have quick access to all tender information.

Services covered by the Agreement, as of August 1991 include: appraisal, catering and cleaning services;computer hardware repairs and services and software maintenance and development; courier and elevator inspection services; equipment rentals and repairs; freight and express, graphic design, printing, photographic services and instructional materials;insurance; surveying; translation; laundry services; security services and waste removal (including toxic wastes).

The Assessment Review Committee is responsible for monitoring the Agreement, and settling disputes. Any complaints would be registered with this Committee which is responsible for rendering a judgment and reporting the results in the Annual Report to the Council of Maritime Premiers.

In fact, the Maritime Procurement Agreement should eliminate many of the remaining barriers listed in the McMillan report. Wine and beer sales are exempt and product labelling and trucking regulations will very likely be addressed as part of the federal initiatives to eliminate interprovincial barriers.

There are subtle barriers, however, and these were referred to in the presentation by the Canadian Manufacturers Association. Their Association recommended one license plate for the region which would allow trucks to pass through all scales, eliminating one of the more subtle barriers in their experience. Another problem which they brought to the attention of Your Committee was the problem of delays in approval for component parts manufactured outside the province for use in a construction job within the province.

Your Committee heard a number of concerns expressed by groups and individuals about the number of off-Island companies that had been awarded construction contracts. There was a particular concern by the Federation of Labour and the Carpenters Union that part of the reason why these off-Island companies were able to submit such low bids is that they are able to use non-unionized

labour here, even if they are prohibited from such a practice in their home province. They believe that employer certification should be the same in all three provinces. The *Challenge and Opportunity* report mentions that the Premiers are considering " a move toward harmonized provincial rules on public tendering" ; the Report also suggests that the Maritimes "could adopt a common set of rules and forms with respect to public tendering."

Your Committee feels it is very important that companies both on and off-Island abide by the same rules in all three provinces when it comes to requirements for employer certification. We recommend that the Maritime Procurement Agreement be amended to require a certified employer to abide by the rules of the company's certification whether that company is operating in its province of origin or any other Maritime province. This is an interim measure that should be adopted immediately as, without it, there could be violation of the spirit if not the letter of the Memorandum of Agreement. We would like to see a more permanent change in the form of harmonized labour legislation of all three provinces, adopting the highest standard as the model.

Your Committee also recommends that the Provincial government assign responsiblity within government, for a monthly review of all Maritime province tenders and the percentage awarded to each province. The person(s) responsible could carefully review the specifications to determine the reasons, if it should be borne out by the numbers, that Island companies are not winning a proportional number of tenders.

How Costly Are the Barriers?

The Royal Commission on the Economic Union and Development Prospects for Canada, the Macdonald Commission, carried out extensive research into interprovincial barriers and trade for their report, released in 1985. They found that the cost of barriers was low, since only 27% of Canadian goods moved interprovincially " Barriers directly affect little of that portion; most products move quite freely. For those subject to restrictions, distortions in the form of preferences are typically quite small. The combination of generally small distortions applying to a subset of products that in turn make up only a quarter of the total national output, together with the economic methodology underlying the calculations, explain the low numbers." Economic analysis done for the Commission showed that distortions had a small effect on output costs from a low of 0.11 percent of GNP to a high of 1.54 percent in 1974 and " more recent work for this Commission reinforces the conclusion that the economic costs are small."

Estimating Gains

Nobody on Your Committee and not one presenter would disagree with, as Dr. McMillan describes in his report, " making the Maritimes a 'have' region by the end of the decade, by the start of the 21st century." He has listed some objectives that again, we do not believe anyone would question as beneficial for Prince Edward Island. These are: "doubling the level of entrepreneurial exports from the Maritimes in five years; doubling the level of entrepreneurial start-ups in each province and doubling the number of businesses started by women; and developing the technology base of the Maritimes over five years".

Several presenters to Your Committee have been dismayed at the lack of evidence in either Dr. McMillan's report or *Challenge and Opportunity* to support the position that economic integration of the Maritime provinces is the vehicle for achieving greater economic growth in the region; there were no estimates of potential savings or gains. We appreciate these concerns, but we are also aware that Dr. McMillan's report is more an evaluation of the function of the Council of Maritime Premiers as an institution and a facilitator of regional cooperation and that the *Challenge and Opportunity* report took Dr. McMillan's position which "confirmed the need for economic integration" as a starting point for examining the removal of trade barriers in the region.

A report by an economist from Dalhousie University, Dr. Michael Bradfield, was submitted to our Committee as part of the presentation by the Union of Public Sector Employees. Dr. Bradfield questions the gains to be made under integration and believes

that they would be small, .5% to 1% of Provincial GDP which is about $10-20 million dollars (based on Provincial GDP for 1990 at $2 billion). His main point is that provincial barriers are less significant than national barriers, so less is gained by removing them. Even with savings in government procurement, Dr. Bradfield estimates potential gains through Maritime economic integration to be well under 1% of Provincial GDP.

Your Committee has since heard from another economist who agreed with Dr. Bradfield's conclusion but for different reasons. The conclusion being that there will be little benefit as measured by Provincial GDP from Maritime economic integration.

It is very clear from examining the Statistics Canada input-output tables that the pattern of shipments in Canada is from the outlying provinces to the hub (Ontario and Quebec). Very little is destined for other provinces in the same region.

At the same time, a basic principle of trade theory is that the greater the differences between particular economies, the more they will gain from trade. According to this principle, Prince Edward Island should be seeking out dissimilar economies in other parts of the world and establishing new trading patterns. We have already seen gains through this approach. Your Committee does not believe that Maritime economic integration will be of any particular advantage in the establishment of these new trading patterns.

Bulk Purchasing

Your Committee has been noticing an interesting phenomenon. Many of the groups will initially endorse the concept of Maritime integration in their written briefs. However, when asked whether or not they have reservations, they will, in a number of cases, admit that they do have concerns - especially for the smaller operations in their respective sectors.

One area in which there has been a good deal of certainty has been in the area of bulk purchasing by governments as a way of saving costs through buying in larger quantities. It has almost seemed a given, that if our Province has nothing else to gain in the area of closer regional integration, we might at least save some money in some type of bulk purchasing arrangement. We are aware that there is some cooperation already between the three provinces in bulk purchasing and we support these efforts. Regional purchasing arrangements for big-ticket items such as school buses could save money for all of the participating provinces.

However, Your Committee was reminded by one of the presenters of a basic economic principle which dictates that although costs can be shifted, they cannot be avoided. Even if governments manage to obtain cheaper prices, if the governments are then responsible

for all of the costs incurred by wholesalers or retailers such as transportation, storage and the risks of depreciation or location, these costs may be shifted onto government and the overall savings may not amount to as much as was anticipated.

Our recommendation is that everything be evaluated on an item by item basis, which we understand is now being done, so that we can achieve some economies without taking on additional costs and duplicating the role of wholesalers. We would also like to avoid a blanket policy so that we are free to purchase locally as a show of support for local entrepreneurial spirit.

Federal-Provincial Agreement

Eliminating interprovincial trading barriers was mentioned in the recently released Federal constitutional-economic proposals package, "Partnerships for Prosperity". Even though the proposals will be the subject of debate for some months to come, the Federal government has signed an agreement, as of mid-November 1991, with all provincial and territorial governments except Quebec to eliminate geographic discrimination in government procurement. Although Quebec did not actually sign it, the province did commit itself to implementing the terms of the agreement which is designed to prevent governments from giving local bidders special consideration regarding prices when tendering for goods valued at $25,000 or more. This agreement is to be

completely in place by 1996 but does not apply to either construction contracts or services. Crown corporations (such as Hydro-Quebec) are exempt and municipalities, universities, schools and hospitals are not covered. The provinces have also agreed to begin examination of discriminatory practices in construction and services within one year of signing the agreement.

Once again, as in 1864, the Canadian or federal agenda may render irrelevant anything we decide to do in terms of Maritime cooperation. As more information on the agreement becomes available, we will have a better idea of how it will affect businesses in Prince Edward Island.

In any case, Your Committee realizes that the changes involved in the move to a global economy which now seem to be taking place, will affect us all and that we need to consider a range of options.

Alternatives

It became very clear, as Your Committee began to examine the question of Maritime economic integration, that alternatives could be considered - particularly when it became clear that the gains from Maritime economic integration would not be substan-

tial. Several presentations pointed to the "small is beautiful" model for economic development and felt that it might be time to revisit some of the work that has been done in this area.

While there did seem to be a consensus among presenters that, in Charles McMillan's words "the status quo is no longer an option", there were directions presented to Your Committee which could be considered alternatives to the status quo and which would not depend on Maritime economic integration as the underpinning for success.

The Institute of Island Studies was one group that shared some of its research with Your Committee. The presenters gave an overview of the work done by Professor Barry Bartmann at the University of Prince Edward Island on small islands and the economies of micro-states. Your Committee found the models quite interesting and hopes to see further research done in these areas. While a provincial government does not control the same levers as does the government of an independent state, and there were certain remedies chosen by these states that could not be applied here, it was heartening to see what small regions, especially those with climate, size and population comparable to Prince Edward Island were able to accomplish.

The Institute presentation also provided the example of an area of the Basque region of Spain where a community created its own model for economic development in the 1950s and now employs over

22,000 people and has assets of over $4 billion. This was an interesting model and Your Committee would like to see it studied further.

Austin Thorne from the Canadian Federation of Labour discussed the concept of niche marketing with Your Committee. The basic priniciple is that if we produce and market a high-quality product and become known for that product, we will be able to carve out a unique area for ourselves in the global economy. He sees this as much more realistic than trying to duplicate what is done in other centres. The development of innovative technology which is directly involved in the processing of our existing natural resources and the constant refinement of this technology will help us to carve out such a niche. At the same time, we must constantly add to our value-added products which will help us build on our strengths.

Your Committee would like to see these alternatives studied further and that adequate time be spent on research into the niche marketing-innovative technology approach as was devoted to the Maritime economic integration initiative, since the gains may prove to be as great or greater.

The presentation by the School Trustees' Association to Your Committee led to a discussion about fostering entrepreneurial spirit in the schools. **Your Committee would like to recommend that this be given a high priority whenever school curricula are revised.**

Your Committee is aware that there are programs within the Provincial Government that facilitate small business development. Your Committee recommends reallocating greater resources to this area.

A good deal of discussion about the Unemployment Insurance program was generated by some of the comments made by various presenters to Your Committee. The Unemployment Insurance system makes it difficult for individuals who wish to change their circumstances to do so through such actions as starting a business, or taking training that is not part of a UI sponsored course or working part-time after the qualifying period for benefits has ended. These problems were documented by a previous legislative committee which reported its findings in February, 1990.

Your Committee recommends that the three Maritime provincial governments strongly suggest to the Federal government that the Unemployment Insurance program be revisited and that the recommendations dealing with disincentives and training which were made by the Report of the Special Committee on Fisheries, Industry, Tourism and Labour be implemented.

Two examples of disincentives were the two-week waiting period, during which time the claimant may not work or must wait an extra two weeks for benefits and the "25%"rule". This rule means that a recipient is allowed to earn only 25% of total benefits. After

that, everything else is deducted which means that when working expenses are taken into consideration, the claimant will end up with less money by working.

A further recommendation was that Training should be a separate entity from the Unemployment Insurance Program to allow more flexibility.

Almost every presenter to Your Committee referred to the high cost of energy in Prince Edward Island. Whether or not Maritime economic integration was favoured, virtually all presenters were concerned about our ability to compete given the high energy, transportation and telecommunications costs. Energy, in particular was seen as a major barrier to economic integration. Several presenters also felt that a fixed crossing was essential if we hoped to achieve a "level playing field". Others, while not advocating a fixed link, were anxious to see an improvement of highways on the New Brunswick side and improved ferry service.

The Canadian Manufacturers Association told Your Committee that the loss of rail service led to increased transportation costs since a freight rate is charged for both incoming and outgoing shipments (by truck). Rail shipments are part of rolling stock and a good proportion of business inputs formerly entered the province by rail; the costs could be from 10-25% more for inputs in some cases, depending on the material.

In Ontario, Quebec and the West, publicly-owned companies such as Ontario Hydro, Hydro-Quebec, Winnipeg Hydro, Edmonton Power and Edmonton Telephones have been able to boost local entrepreneurship and local development. The only privately-owned companies in Canada are in Newfoundland and Prince Edward Island.

Your Committee recommends that data be made available comparing all inter-provincial rates for energy, telecommunications, transportation and the amount of regulation by provincial regulatory utility commissions with the focus on determining parity. Your Committee recommends that this data be updated on a regular basis and that it be accessible to businesses through a program similar to the Department of Industry's ACCESS Program.

Your Committee recommends that a case study be prepared which would focus on one particular industry in an effort to find out our competitive position in regard to energy, telecommunications, transportation and labour and see how they are balanced against such influences as quality of life and infrastructure when businesses decide on a choice of location.

To return to our primary question of economic integration, Your Committee believes it is worthwhile to consider the question of benefits.

The Essential Fact

We believe that we have found our Essential Fact and it is the following: *we can not expect any great savings as a result of dropping the barriers through Maritime economic integration. This brings us to our conclusion.*

Conclusion

If, as it appears, professional groups and associations are dealing with the question of mobility in their respective organizations, open tendering and recent federal initiatives are breaking down provincial barriers, bulk purchasing is to be negotiated on a case-by-case basis, and dollar gains (as reflected by increased provincial GDP) are not significant, what is left in terms of Maritime economic integration?

Our belief is that the business and professional groups will continue to work to simplify the procedures within their respective organizations to increase mobility. We also feel that increased Maritime cooperation is inevitable under the existing regional framework already in place.

In the areas of health care and education, Your Committee heard several presentations promoting the idea of regional centres of excellence for medical research and treatment. Centres of excellence for Maritime universities and a divided responsibility for

education in particular areas was also discussed. Your Committee feels that the "centres of excellence" concept could be explored in greater detail.

Finally, Your Committee does not feel that we have to make any rapid decisions based on fear. At the same time, we see the need for making fundamental changes to reflect the new global realities. Many of what were disadvantages in the past in our position, vis-a-vis Central Canada, are disadvantages no longer. Although we are far from the "hub" of Central Canadian markets, we are that much closer to the ever-expanding European and Eastern markets. We are not facing the collapse of a large manufacturing sector crumbling around us. Although we face serious economic realities we are burdened by no albatross.

In fact, we have some particular advantages simply because of our size. We will have an easier time smoothing out the adversarial relationships that exist elsewhere and hold back real progress - between labour and management, business and government. We can also, because of our size, make rapid decisions when necessary; this advantage is one we may not fully appreciate, not having the experience of a more cumbersome system, but it is something we can ill afford to lose.

We heard one or two presenters mention the winners and losers that would result from Maritime economic integration. They could not tell us, specifically, who would lose and by how much, but we do not accept a model where whole segments of our society could

"lose" at all. It is one thing to talk blithely about winners and losers in an abstract model, but the reality is that those "losers" happen to be our neighbours, our relatives and our friends.

It is very difficult, with the increased emphasis on competitiveness, not to develop a mentality of scarcity. There is a feeling that there is not "enough" for everybody and that if one person gains or "wins", it automatically means that somebody else must "lose."

In his book, *The Seven Habits of Highly Effective People*, Steven Covey talks about six paradigms of human interaction. One of these paradigms, the win-win model, encompasses a solution or agreement that satisfies all concerned. It is a different way of thinking than the win/lose, strongest/weakest model that is often found in the marketplace. One drawback to the win/lose situations is that a short-term win may be a long-term loss. The win-win paradigm is based on a philosophy that there is always a third alternative that will benefit everyone - the creative part is to find it. Covey believes that synergy is the key to creating new alternatives and defines synergy as the whole which is greater than the sum of its parts. It is also the appreciation of differences. We believe that Prince Edward Islanders have the creativity to come up with a win-win model, to find and develop that Third Alternative.

Michael Porter talks about a new definition of competitiveness in a study that he prepared for the Business Council of Canada and the Federal Government. He believes that "the magnitude of the changes affecting Canada's economic environment means that Canadians need to achieve a broad understanding of the issue of competitiveness and work to forge a consensus for action." In this climate of "emerging debate" Your Committee feels that we need to provoke more discussion about competitiveness in a way that goes beyond the traditional thinking which focuses on the cost of inputs.

Your Committee recommends that government attempt to generate more discussion about new ways of looking at the traditional issue of competitiveness.

While Your Committee heard from individuals and groups on the question of Maritime economic integration, we noticed that there was a feeling which echoed through almost every presentation - that fundamental changes to our current system are needed. People are ready for new solutions to old problems, solutions which go beyond Maritime economic integration - an idea that has been with us, on and off, since 1864. At the same time that Your Committee believes that Islanders are anxious for innovative approaches, we realize that nobody wants to lose the quality of life that we enjoy. Our belief is that a clear future lies beyond the mists of change.

List of Recommendations

1) Your Committee endorses the initiatives which have been achieved by the three Maritime Premiers in the area of Maritime economic integration. However, Your Committee believes that this initiative alone will not solve our economic problems and that we need to think about the creation of wealth in new and fundamentally different ways. (page 7)

2) A review by the Council of Maritime Premiers of tax credits is recommended to ensure similar tax base definitions and administrative practices in all three provinces. (page 14)

3) Your Committee recommends the creation of a regional task force which would work with the other Maritime (or Atlantic) provinces to find ways of stemming the flow of capital outside the region.(page 15)

4) It is recommended that the Maritime Procurement Agreement be amended to require a certified employer to abide by the rules of that company's certification, whether that company is operating in its province of origin or any other Maritime province. Eventually we would like to see a more permanent change in the form of harmonized labour legislation of all three provinces, adopting the highest standard as the model. (page 19)

5) It is recommended that the Provincial government assign responsibility within government, for a monthly review of all Maritime province tenders and the percentage awarded to each province. (page 19)

6) Your Committee's recommendation for bulk purchasing is that savings be achieved without duplicating the role of wholesalers or taking on additional costs. We recommend avoiding a blanket policy so that we are free to purchase locally as a way of supporting local entrepreneurs. (page 24)

7) It is recommended that adequate time be spent on research into the niche-marketing, innovative technology approach as was devoted to the Maritime economic initiative. (page 27)

8) It is recommended that a high priority be given by the schools to the fostering of entrepreneurial spirit in young people. (page 27)

9) Your Committee recommends reallocating greater resources to the Provincial Government programs which help small business development. (page 28)

10) Your Committee recommends that the three Maritime provincial governments strongly suggest to the Federal government that the Unemployment Insurance program be revisited and that the recommendations dealing with disincentives and training made by the Report of the Special Committee on Fisheries, Industry, Tourism and Labour be implemented. (page 28)

11) Your Committee recommends that data be made available comparing all interprovincial rates for energy, telecommunications, transportation and the amount of regulation by provincial regulatory utility commissions with the focus on determining parity. It is recommended that this data be updated regularly and be accessible to businesses through a program similar to the Department of Industry's ACCESS program. (page 30)

12) Your Committee recommends that a case study be prepared which would focus on one particular industry in an effort to find out our competitive position in regard to energy, telecommunications, transportation, and labour and see how they are balanced against such influences as quality of life and infrastructure when businesses decide on a choice of location. (page 30)

13) Your Committee recommends that government attempt to generate more discussion about new ways of looking at the traditional issue of competitiveness. (page 34)

APPENDIX A

SPECIAL COMMITTEE ON MARITIME ECONOMIC INTEGRATION

Contributors

1. Council of Maritime Premiers
2. Atlantic Provinces Economic Council
3. Construction Associations of Prince Edward Island, Nova Scotia and New Brunswick
4. Architects Association of Prince Edward Island
5. Certified General Accountants Association
6. Association of Professional Engineers
7. Federation of Agriculture
8. Mr. Nigel Cuthbertson
9. Acadian Communities Advisory Committee
10. Prince Edward Island Truckers Association
11. Nursing Assistants Registration Board
12. National Farmers Union
13. Union of Public Sector Employees and the National Union of Provincial Government Employees
14. Prince Edward Island Council of Labour
15. Women in Support of Agriculture
16. Mr. James Follwell
17. Institute of Island Studies
18. Greater Charlottetown and Area Chamber of Commerce
19. Licensed Nursing Assistants of Prince Edward Island
20. Law Society of Prince Edward Island
21. Prince Edward Island Real Estate Association
22. Island Tel
23. Maritime Electric
24. Carpenters Union
25. School Trustees' Association
26. Hospital Association of Prince Edward Island
27. Medical Society of Prince Edward Island
28. Institute of Chartered Accountants
29. Canadian Manufacturers Association
30. Prince Edward Island Milk Marketing Board
31. The Prince Edward Island Dairy Producers Association
32. Prince Edward Island Federation of Labour
33. Social Action Commission
34. Prince Edward Island Advisory Council on the Status of Women
35. Mr. Jim Revell
36. Atlantic Dairy Livestock Improvement Corporation
37. Mr. Austin Thorne, Canadian Federation of Labour
38. Dental Association of Prince Edward Island
39. Prince Edward Island Dietetic Association

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